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RUEHNE/AMEMBASSY NEW DELHI 5109
RUEHUL/AMEMBASSY SEOUL 8697
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RUEHCN/AMCONSUL CHENGDU 1631
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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000871

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E.O. 12958: DECL: 11/07/2018
TAGS: [ECON](#) [EWWT](#) [EPET](#) [ENRG](#) [PREL](#) [PGOV](#) [BM](#)
SUBJECT: BURMA: DAEWOO DISMANTLES RIG IN DISPUTED WATERS

REF: A. 06 RANGOON 1818
[1](#)B. IIR 6 812 0015 09 06 NOVEMBER 2008
[1](#)C. DHAKA 1147

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

Summary

[1](#)1. (C) Daewoo officials in Rangoon confirmed reports that the company is dismantling its drilling rig in the A-3 block off the western coast of Burma, following accusations that it was drilling in Bangladesh's territorial waters. Although Daewoo will be able to move the rig to another location in the A-3 block by the November 10 deadline set by the Bangladeshi Navy, Daewoo will not have enough time to remove the sub-sea equipment and anchors, worth an estimated USD 6 million. Financial losses from the transfer of the rig could total as much as USD 20 million. Daewoo officials question the timing of the Bangladeshi Government's accusations, as the company has been drilling in the area for more than two years. Nevertheless, they remain confident that the Governments of Bangladesh and Burma will resolve the dispute and that Daewoo will be able to resume drilling in the same location. End Summary.

Disputed Waters?

[1](#)2. (C) In 2006, Daewoo and its consortium partners Korean Gas Corporation, India's ONGC Videsh, and GAIL India, signed a thirty-year production sharing contract (PSC) to develop offshore blocks A-3 and A-1 with state-owned Myanmar Oil and Gas Enterprise (MOGE), the GOB entity responsible for the development of oil and gas production (Ref A). Both blocks

are located in the Bay of Bengal, off the coast of Northern Rakhine State in the western part of Burma. According to Daewoo Myanmar Managing Director Dr. Su-Yeong Yang, these blocks were considered to be in Burmese territorial waters when Daewoo signed the contract; had the area been in dispute, Daewoo would not have agreed to the terms. He noted that Daewoo has been conducting exploratory drilling in A-1 and A-3 blocks for more than two years, including in the allegedly disputed areas, but this is the first time the Bangladeshi Government has raised the issue.

13. (C) Doug Davidson, Senior Drilling Engineer for Daewoo's Shwe Gas Project, confirmed that the Daewoo rig, staffed by approximately 120 foreign and Burmese engineers, and its supply ships had been in the "disputed waters" in the A-3 block for more than three weeks before Bangladeshi naval warships ordered them on November 1 to vacate the area (Ref B). (Note: Daewoo in late 2007 submitted to MOGE a detailed exploration plan for the westernmost part of the A-3 block, which was approved.) In fact, Daewoo had already drilled exploratory wells in a nearby area, which may also be in "disputed waters," Davidson highlighted. Company officials were surprised that instead of working directly through diplomatic channels with either the GOB or Daewoo, the Bangladesh Government instead chose to engage in "gunboat diplomacy," ordering Daewoo to leave under threat of fire.

Daewoo: GOB Delays Forced Withdrawal

14. (C) According to Davidson, the warships approached the Daewoo rig on November 1 and demanded documentation - schedules and a drilling program. Upon receipt of the

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information, Bangladeshi naval officers told rig officials to move the rig immediately. Daewoo officials refused, saying they were in the middle of drilling and the company had a concessionary right to be in the area. Davidson said that on November 2, the Bangladeshi naval officials told Daewoo that they had until November 10 to stop drilling, dismantle the rig, and leave the area or there would be consequences. They also told Daewoo that the company could not send in boats or helicopters to assist. Rig officials highlighted that without transportation support, they would not be able to meet the November 10 deadline.

15. (C) On November 3, the Bangladeshi naval officers asked rig officials for an official letter from Daewoo explaining the need for ship and helicopter support. According to Davidson, Daewoo officials in Rangoon drafted a document detailing Daewoo's contract for the A-3 block, GOB permissions to drill, and the process by which a rig could be dismantled and moved. Daewoo submitted the document to MOGE for transmission per diplomatic protocols. MOGE never delivered the statement, Davidson declared. Based on informal conversations between Bangladesh Navy officials and Daewoo rig officers, Daewoo officials are confident that had MOGE provided the Government of Bangladesh with the letter, Daewoo would have been able to continue drilling.

16. (C) On November 4, Daewoo, recognizing that the territorial dispute could take months to negotiate, ordered the rig to be dismantled. To speed up the process, rig officials asked the Bangladeshi naval officers for permission to bring in support boats and helicopters. According to Davidson, the Government of Bangladesh agreed to allow some support, and naval commanders in the Bay of Bengal are now authorized to review and approve individual requests. On November 5, one Daewoo helicopter landed on the rig, bringing supplies and a new crew. On November 6, Daewoo received permission for two helicopter missions. To date, Daewoo has not asked for ship support, although it may on November 8.

Financial Loss

17. (C) Davidson noted that Daewoo will move the rig to another location in the A-3 block on November 10 and will commence with exploratory drilling in that area ahead of schedule. While he would not comment whether there are natural gas reserves in the disputed area, he noted that Daewoo "will absolutely resume drilling" once the Bangladeshi and Burmese Governments resolved the territorial dispute - an indication of gas reserves. Daewoo is attempting to minimize its financial loss, currently estimated at more than USD 10 million since November 1 (due the inactivity of the rig, cost of dismantling, salary costs, and rig rental fees of USD 450,000 a day). Its total loss could be as high as USD 20 million. However, with the 10-day timeframe, Daewoo will not have enough time to remove the sub-sea equipment and anchors used to keep the rig in place -- worth approximately USD 6 million alone (included in the USD 20 million estimate).

Comment

18. (C) The Bangladeshi Government sent an envoy to Burma on November 6 to negotiate the territorial boundaries with the Ministry of Foreign Affairs. It is not clear how long negotiations will continue. Since the area in question is believed to be rich in natural gas the stakes appear to be high. Daewoo has not yet written off its investment, and believes, perhaps naively, that the two governments will

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resolve this dispute quickly and that the company can resume drilling in the next few months. Daewoo remains committed to work in Burma, and with each exploratory well, moves closer to reaping its financial rewards. News reports indicate that the Bangladeshi Government has asked the Chinese to help broker an agreement.

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